vide p.s. 6-37 (1-3) Secs. B. of Secs.

App. E. IX-4

Previous References 1927-28 (J.S.) P-17-2-E

File No. 12-27

Serial Nos. 1-2

Later References
J. 08-30 (1-3)

preserve

General and Revenue Secretariat.

Serial Nos. Two.

Part B for October 1928

SUBJECT

Note re the ~~audit~~ report on the joint-stock Companies for the year ended 31.12.28 by Sir Charles Todd-Thomlin.

Thumbnail

For pages 1-9 of the note (1) (10) Please see J.S 6-27 (1-3)

D.O. No D 3646 dt 6-10-27

To The Registrar of J.S. Cos

In continuation of Sl 3 (J.S. 6-27) forwards for favour of his views an extract of the letter received from Sir Charles Todhunter

~~Subject matter~~

Sus A.

GEN. & REV. SECRETARIAT
10 OCT. 1927
DEVELOPMENT BRANCH

Jall
10-10-27

2. From
The Registrar of Joint Stock Companies
D.O. No C 203/27-28 dt 4-7-1928.

NOTE—Contn. sheet

WD 0324—GPB—60,000—24-5-27

REMINDERS.

No.	Date	

Serial No.

Forwards a note containing his views on the extract of Sir Charles Todhunter's note on the Report of the Joint Stock Companies in the State for the year ended 31st March 1927.

25 Submitted for perusal.

26 A copy of Companies Regulation is submitted for reference.

CSR 6/7

27 The Regr's note deals fully & clearly with the views and suggestions contained in the letter of Sir Charles Todhunter.

28 As suggested by the Regr, it seems proper to fix a certain proportion between the minimum Subscription (on which the Company could proceed to allotment) and the Authorised capital of the concern. Conceivably, this proportion may differ according to the nature of the business handled by the Company.

29 It would perhaps be taking too great a responsibility on themselves, if Govt were to undertake the internal audit of the accounts of all Companies registered under the Regulation - as observed by the Regr

30 In any case, these aspects may be further examined, after the English Company Law is amended: that is being examined by a Special Committee appointed by the Board of Trade.

31 Submitted with previous reference & the Regr's

NOTE—Contn. sheet.

See D)

19/7

WD 0321-GPB—60,000—24-5-27

19/7/26

General and Revenue Secretariat.

F.S File No. 12 of 1927. (12

Serial No.

32) The Registrar's note shews very clearly that it would be undesirable to ask promoters to collect capital before the company is registered. It would be inexpedient to deny the benefits of registration to small companies in our present stage of development.

33) The Registrar's suggestion that the law should fix the proportion that subscribed funds should bear to the total capital before a company can proceed to business is deserving of consideration.

34) I agree with the Registrar that Government would be assuming a serious and expensive responsibility if they undertook audit; and to offer to do so with inadequate staff would be to create a false sense of security in the public.

1st Member

24/7/28

25/7

35) Both the points raised by Sir Charles Todhunter are important; but no action on the lines suggested by him can be taken in respect of either of them under the existing law.

36) Sir Charles has not suggested that the benefits

OFFICE OF THE FIRST MEMBER OF COUNCIL
8 AUG. 1928
No. 940.

OFFICE OF THE SECOND MEMBER OF COUNCIL
25 JULY 1928
No. 867

NOTE—Contn. Sheet.

WD 01714—GPB—30,000—18-4-28

Serial No.

benefits of limited liability should be denied to small concerns. The point to which he has drawn attention is the utter disproportion which exists in many cases between ostensible capital and real capital as represented by the paid-up amount. What remedy should be applied to mend this defect, requires consideration.

57) As regards the second point raised by Sir Charles, it is no doubt undesirable, as observed by the Registrar, for Government to undertake the duty of audits and inspections the responsibility for which should ordinarily rest with share-holders and Boards of Directors. At the same time, it cannot be denied that, with a view to promote bona-fide joint-stock business enterprise and to discourage mushroom concerns, it is desirable that Government should afford whatever protection they can, without assuming direct responsiblity for the soundness or success of any concern. I am not sure if the Government agency for the administration of the Company Law in general and for the proper scrutiny of returns and reports to be rendered by companies in particular, is adequate or equipped with expert knowledge. If the existing arrangement is in any way unsatisfactory in this respect, it is necessary to take measures for ~~impro~~ improving

WD 01714—GPB—30,000—18-4-28

14)

General and Revenue Secretariat. | J.S. File No. 12 of 1927.

Serial No.

DEWAN'S OFFICE
Received on
18. AUG. 1928
No. 4063

improving the practical administration of the Company Law even as it stands.

38) As observed by the Registrar, the English Company Law is now under revision. I believe it is under the contemplation of the Government of India also to revise their law and they are waiting for the Bill before the British Parliament to become law. We may wait and see on what lines the Indian law is proposed to be amended and then take action to revise our law in the light of our experience and of the amendments made in the British and British Indian Laws. The recommendations of the Expert Committee on which the amendment of the English law is based, contain some provisions calculated to remedy, as far as possible, the defects pointed out by Sir Charles.

Mule
17-8-28

Dewan)

18.8.28

18/8

39) 18-8-28

B & Sus

20/8

NOTE—Contn. Sheet.

WD 01714—GPB—30,000—18-4-28

15)

General and Revenue Secretariat.

File No. 12 of 1927

Serial No.

Submitted.

40) Kind Reference is invited to the orders of the First Member in (para 38) page 14. It is respectfully submitted that the Suggestion of the Registrar of Joint Stock Companies ~~was~~ have not been communicated to Sir Charles Todhunter

41) It is for orders whether the same may be sent to the Private Secretary to His Highness, unofficially

42) Submitted for orders. The file does not appear to have been perused by H.H.

14.9.28 Sec'y D)

Sec'y for orders —

14/9/28

1641

May the file be sent u.o.m. to the Private Sec'y to H.H. for

1st Member

19/9/28

Not necessary

19/9

20.9.28

20/9

OFFICE OF THE FINANCE MINISTER
19 SEP 1928
No. 1889

GENERAL & REVENUE DEPARTMENT
2 OCT 1928
DEVELOPMENT BRANCH

B. of Lus

NOTE—Contn. Sheet.

WD 01714—GPB—30,000—18-4-28

G. R. S. III—3]

[To be used only for n ent record.]

Does Joint Stock Cos" fo with Co-operative Societies" & the 3rd Member's portfolio?

Please see whether the two have always gone together, and let me have a note. The 3rd Member wants this verified.

28/7/28

WP 28/7

Submitted

The Subject has been discussed in detail in Another file (J.S 2-28.) Wherein the First Member has Kindly given Assent to the inclusion of Joint Stock Companies in his portfolio and the Same has been submitted to the Dewan-

It is for orders whether this file may be marked to the First Member or to await the orders of the Dewan on the other file.

Orders of the Dewan on the other file may be awaited

WP 28/7

N.B.—Should routine notes be written on small slips the notes must be copied, or slips pasted on this form

17

G. R. S. III—3]

ROUTINE NOTES.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

Submitted.

Diwan's Order has been obtained (File No J.S. 2-28-). This file may perhaps be marked to the First Member.

CBR 8/8.

Yes, thanks

8 8 28

8/8.

N. B. -Shouldroutine notes be written on small slips the notes must b cipoed, or slips pasted on this form.

APP. F. VI. Gl.]

SUBJECT.....

.....

.....

Diary No. of letter replied to.....

General and Revenue Secretariat

( )

the 192

Date of issue 8-12-27

Signed by W. R.

Urgent & Confidential.

Section Js.

File No. 12-27

Seria No.

No. D 3691 & 81/27

To

.....

Dear Sir Reference the Bengal Chamber of Commerce

Our Continuation of G.O. No. D 23446-7-Js. 6-27 3 & 3 9/27

Reference the Report on the working of the Joint Stock Companies in Mysore during the year ending 31-3-1927 I am desired to observe that several of the Companies have not been thriving as well as they ought to & it would seem that such failures are inevitable when the benefits of limited liability are given to institutions which describe themselves as Banks who

over

Kindly forward 7 copies of the enclosed extract of a letter received from Sir Charles Todhunter.

Yours sincerely

W. R.

List of enclosures.....

Copied by.....

Examined by.....

WD 0562—GPB—31,000—17-8-25

2

paid up Capital amounts to such
small figures as Rs 2,320/- Rs 14,071/-
1,2380/- Rs 3345, ~~Rs 15/-~~ etc

Secondly it is seen from para 18
of your report under adverteence
~~that~~ frequent complaints are being
received in your office against the
Directors of the several Companies and
that such complaints cannot be enquired
into as ~~they~~ thereby refer to matter
relating to the internal management
of the Companies.

With a view to remedy the above
etc I am to enquire whether it
ld not be proper, in the interests
the Shareholders of the general
lic, to require that no Company
uld be allowed the benefits of Company
rporation & limited liability unless it
re able to show that it had such a
aid up Capital as would enable it to
duct a reasonable amount of business
rther I am to ask whether it would
not also be well to give the Shareholders and

G. R. S. G/33]

GENERAL AND REVENUE SECRETARIAT.

(*Continuation sheet' draft form.*)

the public a greater degree of protection by means of Govt inspection ie by having Souls like an efficiency audit of their accounts which would keep Govt apprised of the manner in which the business was being conducted & give them intervene at least to the extent of bringing the light of publicity to bear on case of scandalous mismanagement.

The question may kindly be examined & report send Govt at a very early date.

Yours sincerely

Secty to Govt

Deptt of Pubs

To

The Registrar of Jt. Cos.

WD 2230—GPB—1,00,000—23-7-20

REGISTRAR OF JOINT STOCK COMPANIES IN MYSORE
RECEIVED
Date 9-12-27
REG. NO. C 203
G. R. [illegible] 45]

DEVELOPMENT BANK
19 DEC. 1927

4

REPLY.

GOVERNMENT OF HIS HIGHNESS
THE MAHARAJA OF MYSORE.

GENERAL AND REVENUE DEPARTMENT.

No. 36040 , dated the 8-12-1927.
(JS)

No C 203/27-28, dated the [illegible]

16/7
23 12 27
WP 23/12

D no 5387

To The Registrar of joint stock companies

To
The
Secretary to the Government of
H. H. the Maharaja of Mysore
Development Departments,
BANGALORE.

Enclosing for his views an extract from SUBJECT. Sir Charles Todhunter's note on the review on the report on the working of Indian joint stock companies in the State during the year ended 31st March 1927

Sir,

I have the honour to state that the matter is under my active consideration. A copy of the Bill amending the English Companies Act recently introduced into the Houses of Parliament has just been obtained from London. My views will be submitted in about a month's time.

I have the honour to be,
Sir,
Your most obedient servant

J Majumdar
Registrar.

OFFICE MEMORANDUM.

The undersigned is directed to invite attention to the marginally noted communication and to request that the General and Revenue Secretariat may be informed, in the column opposite, of the cause of delay in furnishing a reply and of the approximate date on which a reply may be expected.

He is also to request that the General and Revenue Secretariat may be favoured with a reply to this reminder not later than the 18th instant

3696/JS. 12-27-1
*No. , dated
98. 10. 27

By order.

Subramanyaiyer
for Dep Secy to Govt.

DVP.

*Previous reminder.

WD 01239—GPB—3,750 —4-9-26

G. R. S. III—3]

ROUTINE NOTES.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

28. 12-27-2

D. O. No. C.203/27-28.
Encl. One.
CONFIDENTIAL.

OFFICE OF THE REGISTRAR OF
JOINT STOCK COMPANIES IN MYSORE.

Bangalore, 4th July 192 8

GEN. & REV. SECRETARIAT
5 JULY 1928
DEVELOPMENT BRANCH

Dear Mr. Rama Rao,

With reference to your D.O. No. D.3696/J.S.12-21-1 dated 8th October 1927, I enclose herein a note containing my views on the extract of Sir Charles Todhunter's letter forwarded by you. I regret the delay in replying to your letter as I wanted time to study the question carefully.

Yours sincerely,

To

N. Rama Rao, Esq., B.A., B.L.,
Secretary to the Government of
His Highness the Maharaja of
Mysore, Development Depart-
ments, Bangalore.

N. B.—Should routine notes be written on small slips the notes must be copied, or slips pasted on this form.

N o t e .

Sir Charles Todhunter has made two suggestions:

(A) No company should be allowed the benefit of registration and limited liability unless it were able to show that it had such a paid-up capital as would enable it to conduct a reasonable amount of business; (B) The shareholders and the public may be given a greater degree of protection by means of inspection of their accounts by Government Agency.

(A) In the Mysore Companies Regulation which is modelled on the British Indian Act, there is no provision to the effect that a company should have collected a certain amount of capital before it could be registered as a company with limited liability. The suggestion cannot, therefore, be carried out under the existing law. It is also doubtful whether it is desirable at all to enforce such a condition. Before a company is registered by the Registrar, it has no existence and if the production of a certain amount of paid up capital were made one of the conditions of registration, the amount will have to be collected and entrusted to the promoter who may, without registering the company, misappropriate the amount and put the subscribers to unnecessary trouble. In the second place, the underlying idea that small companies should not be registered with limited liability ~~does not~~ seems to be open to question. Limited liability does not necessarily connote big business. On the other hand, in a State like Mysore where the scope ~~and~~ for large industries is limited and where the starting of a large number of more or less small industries is called for, the necessity for starting them on Joint Stock basis with limited liability seems to be felt. If all but big companies are excluded from the benefits of registration, the effect on industrial development will

probably be adverse.

Instead of, therefore, demanding a certain amount of paid-up capital at the time of registration it seems to me that a more feasible method would be to require that the minimum subscription on which allotment can be proceeded with should bear a defined percentage to the authorised capital. Under Sections 101 & and 103 a company cannot go into business unless the minimum subscription fixed by the Memorandum or Articles of Association is subscribed. This minimum subscription was introduced for the first time in British India in the year 1913, and in Mysore in the year 1918. The Legislature has not fixed any amount as the minimum subscription as this depends upon the nature of companies and has left it to the good sense of the promoters. As matters stand at present, the discretion is not properly exercised and the minimum subscription is put at a low figure (for example a company with lakhs of rupees as its authorised capital can commence business with only Rs.10). I would therefore suggest that a certain proportion may, perhaps be fixed between the minimum subscription and the authorised capital by an amendment of the law.

(B) As regards the 2nd point, companies are required under Section 144 to elect auditors every year in the Annual general meeting to audit their accounts. These auditors should either be chartered or incorporated Accountants or holders of certificates from the Mysore Government.

To appoint another set of parallel auditors under Government control seems to be neither desirable or nor feasible. There is not only no provision in the law for this but considering the complicated nature of the company law and the laborious work

work involved in attending to the details of accounts of large companies, Government will be taking a serious responsibility on themselves if the auditors appointed by them should not discharge their duties satisfactorily. Moreover, Government will have to incur a large expenditure quite disproportionate to the receipts of this Department. Even in the Co-operative Department recent tendency seems to be towards entrusting audit work to the Societies themselves or to unions composed of Societies.

The existing law provides for action to be taken in certain special cases. Under Section 138 of the Mysore Companies Regulation, Government have got power to appoint Inspectors on a report made by the Registrar or on applications of certain members of the company. The whole scheme of the Regulation is based upon two essential principles, namely, all control over the internal transaction of the company has to be exercised as far as possible by the shareholders of the company ~~only~~, and in exceptional cases it is the Civil Court that should intervene to enquire into the affairs of the company and order its winding-up. It will be difficult to super-impose upon this scheme another idea based upon efficiency audit of companies by Inspectors appointed by the Government.

I do not mean to suggest in the above observations that the existing company law is perfect and does not require any alteration. On the other hand, on a careful study of the Regulation I find it requires some considerable changes. There are provisions requiring companies to do certain acts but in some cases no penalties are prescribed for their ~~xxx~~ omission. I understand that the English Company law, on which the British Indian Companies Act is also based, is being

amended in consequence of the subject being threshed out by a company law Amendment Committee appointed by the Board of Trade. I am studying the subject in detail and shall suggest certain amendments of the existing law in due course.

Yours

NPS.

REGISTRAR.